

Message Text

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ORIGIN EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

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DRAFTED BY EUR/CAN:JHROUSE,JR.:CLJ

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TO AMEMBASSY OTTAWA PRIORITY

INFO AMCONSUL TORONTO

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E.O. 11652: N/A

TAGS: ETRD, CA

SUBJECT: PRESS GUIDANCE: U.S.-CANADA AUTO PACT

THE FOLLOWING CONTINGENCY Q AND A'S WERE PREPARED FOR
DEPARTMENT'S PRESS BRIEFING JANUARY 29. ONCE BRIEFING IS
HELD WE WILL REPORT ACTUAL EXCHANGE, IF ANY.

Q: HAS CANADA ASKED TO OPEN TALKS ON THE AUTO PACT?

A: WE HAVE RECEIVED NO FORMAL REQUEST TO DISCUSS THE PACT,
ITSELF. HOWEVER, WE HAVE SEEN PRESS REPORTS FROM CANADA
INDICATING THAT THE CANADIAN MINISTER OF INDUSTRY, TRADE
AND COMMERCE WOULD LIKE TO MEET WITH COMMERCE SECRETARY-
DESIGNATE ELLIOTT RICHARDSON. IT IS NORMAL FOR THE SENIOR
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OFFICIALS OF OUR TWO GOVERNMENTS TO CONSULT WHEN A NEW MAN

COMES ON BOARD AND IT WOULD BE NATURAL IN THE COURSE OF SUCH DISCUSSION FOR THE AUTO PACT TO COME UP.

Q: ARE TALKS NOW GOING ON REGARDING THE AUTO PACT AS STATEMENTS IN OTTAWA HAVE INDICATED?

A: WE HAVE COORDINATED WITH THE CANADIAN GOVERNMENT PARALLEL STUDIES OF THE AUTO INDUSTRY IN NORTH AMERICA AND WHERE IT MAY BE GOING IN VIEW OF RECENT DEVELOPMENTS IN SUCH AREAS AS ENERGY AND ENVIRONMENTAL CONCERNS. THE

PACT IS AN IMPORTANT FEATURE OF THE NORTH AMERICAN INDUSTRY AND AS SUCH WILL BE AN ASPECT OF THE STUDY, THOUGH NOT THE PRINCIPAL ONE.

Q: THE U.S. INTERNATIONAL TRADE COMMISSION'S STUDY OF THE U.S.-CANADIAN AUTO AGREEMENT IS REPORTED IN THE CANADIAN PRESS AS BEING HIGHLY CRITICAL OF THE ADVANTAGES CANADA GAINS FROM THE AGREEMENT. CAN YOU COMMENT ON THIS?

A: WE UNDERSTAND THAT THE INTERNATIONAL TRADE COMMISSION HAS SUBMITTED ITS REPORT TO THE SENATE FINANCE COMMITTEE THURSDAY, JANUARY 22. THE COMMITTEE IS REVIEWING THE STUDY AND, WE UNDERSTAND, INTEND TO RELEASE IT. IT WOULD BE INAPPROPRIATE, THEREFORE, FOR US TO COMMENT AT THIS TIME.

WE BELIEVE THAT THE OPERATION OF THE U.S.-CANADIAN AUTO AGREEMENT HAS RESULTED IN SUBSTANTIAL BENEFITS FOR THE ECONOMIES OF BOTH COUNTRIES.

WE WILL REVIEW THE STUDY AND ITS CONCLUSIONS CAREFULLY WHEN THE SENATE FINANCE COMMITTEE RELEASES IT AND WILL REVIEW WITH THE COMMITTEE ANY RECOMMENDATIONS THE STUDY MAY CONTAIN.

ALTHOUGH WE HAVE NOT SPECIFICALLY MET WITH CANADA ON THE PACT ITSELF, WE HAVE INITIATED PARALLEL STUDIES WITH CANADA ON THE FUTURE OF THE NORTH AMERICAN AUTO INDUSTRY. THE PACT, OF COURSE, IS A FEATURE OF THE NORTH AMERICAN UNCLASSIFIED

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AUTO INDUSTRY AND WILL BE STUDIED AS SUCH.

Q: THE U.S.-CANADIAN AUTO PACT LETS CANADA EXPORT CARS TO THE U.S. FREE OF DUTY, WHILE CANADA STILL KEEPS IN FORCE "SAFEGUARDS" AGAINST OUR EXPORTS UNDER THE PACT. AT A TIME WHEN OUR OWN AUTO INDUSTRY IS IN ITS WORST RECESSION SINCE WW II, WHY ISN'T THE ADMINISTRATION TAKING ACTION TO MODIFY THE PACT?

A: WE BELIEVE THE STATE OF THE U.S. AUTO INDUSTRY IS CAUSED PRIMARILY BY EFFECTS OF THE U.S. RECESSION RATHER THAN BEING A RESULT OF THE INFLUENCE OF IMPORTS. IN FACT, THE VOLUME OF IMPORTS DECLINED SUBSTANTIALLY IN 1975 AS THE OVERALL U.S. MARKET BEGAN TO SHRINK. THE PROBLEM UNFORTUNATELY WAS THAT THE MARKET SHARE OF U.S. MADE CARS DECLINED EVEN MORE DRASTICALLY.

THE SEVERITY OF THE DOWNTURN HAS CAUSED, OF COURSE, SERIOUS DOMESTIC UNEMPLOYMENT, ESPECIALLY IN THE AUTO INDUSTRY. BUT IT HAS ALSO HAD THE EFFECT OF DEVELOPING A SUBSTANTIAL AND GROWING U.S. SURPLUS DURING THE PAST TWO YEARS IN TRADE UNDER THE AUTO AGREEMENT. FOR 1974 THE U.S. SURPLUS WAS 1.2 BILLION DOLLARS AND IN THE PERIOD JANUARY-JULY 1975 IT HAD ALREADY REACHED 1.06 BILLION. THUS IN TRADE TERMS THE AGREEMENT HAS HELPED US IN A PERIOD OF DECREASED DOMESTIC DEMAND, AND HAS BEEN AN IMPORTANT FACTOR IN OUR IMPROVING BALANCE OF PAYMENTS POSITION. THE STUDY OF THE PACT WHICH THE FINANCE COMMITTEE HAS ASKED THE ITC TO DEVELOP SHOULD BE ABLE TO IDENTIFY THESE OBVIOUS TRADE BENEFITS AND WEIGH THEM AGAINST ANY ASSERTIONS THAT THE PACT HAS BEEN A MAJOR CAUSE OF UNEMPLOYMENT IN THE U.S. AUTOMOTIVE SECTOR. IN THE MEANTIME I THINK IT IS HIGHLY UNWISE TO ATTACK AN ARRANGEMENT THAT HAS CLEARLY BENEFITTED U.S. TRADE IN A DIFFICULT PERIOD. THIS APPLIES PARTICULARLY TO THE SO-CALLED CANADIAN "SAFEGUARDS" WHICH OBVIOUSLY HAVE NOT PREVENTED A SIGNIFICANT U.S. SURPLUS FROM DEVELOPING.

MOREOVER, THE CANADIANS ARE THEMSELVES INCREASINGLY CONCERNED ABOUT THE U.S. SURPLUS. SHOULD THEY WISH TO GO OVER THE MODALITIES OF THE AGREEMENT AT SOME FUTURE UNCLASSIFIED

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TIME (NOT UNLIKELY IF OUR SURPLUS PERSISTS, AS IT PROBABLY WILL IN THE NEAR AND MEDIUM TERMS), SUCH AN OCCASION WILL PERMIT US TO REVIEW THE TOTAL RANGE OF COSTS AND BENEFITS WHICH IT HAS BROUGHT TO BOTH PARTIES. THAT WOULD BE THE RIGHT TIME TO COME BACK TO THE "SAFEGUARDS" PROBLEM. KISSINGER

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